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Director of Central Intelligence

Assistant Director for Reports and Estimates

Rubber

1. Recent efforts of the USSR to obtain rubber in Ceylon, following unusually large purchases in Malaya earlier in the year, was the occasion for a meeting of representatives of interested agencies at the Department of State on 17 November to explore possible action to be taken in order to prevent the USSR from obtaining Ceylonese rubber. Those present at the meeting were:

Department of Commerce	- E.G. Holt S.E. Overley
Economic Cooperation Administration	- Arthur Cox H.B. Leggett
Munitions Board	- Colonel W.H. Crom Charles Sullivan Frederick Bates
National Security Resources Board	- Arthur Wolf Fred Winant
Department of State	- Donald Kennedy William T. Phillips R.G. Hooker E. Dahl Gregory Grossman W.C. Armstrong George H. Alexander
Central Intelligence Agency	- [REDACTED]

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2. It was the opinion of those present that nothing could be done to prevent Soviet procurement of Ceylonese rubber in the near future. It was felt that preclusive buying is not now feasible because it would invite Soviet retaliations on manganese and chrome. Furthermore, in view of a probable world surplus of rubber, the USSR could turn to other areas such as Siam.

3. The Munitions Board cannot now purchase Ceylonese rubber under its stockpiling program because it has completed its procurement program through the first half of 1949 and has no more funds available. The ECA has counterpart funds in Italy and possibly France, and was requested to study the possibility of transferring part of these funds for purchase of Ceylonese rubber at market prices.

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4. The Department of State was requested to prepare for a conference on the subject with the new Ceylonese Ambassador. The interested agencies were requested to study the possibilities of a general Government program for purchase of rubber so as to reduce the supplies available to the USSR. Without the cooperation of other countries which control rubber producing areas, however, action by the United States alone probably could not be very effective. The United Kingdom has already arranged for its short-term supply of rubber and is apparently unwilling to participate in such a program.

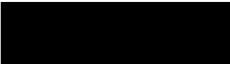
5. It was felt that the Soviet request for a government-to-government agreement with Ceylon on rubber, as proposed by the USSR, would not be concluded because of the pro-western leaning of the Ceylonese Government, but that lack of such an agreement would not prevent the Soviets from procuring rubber through private transactions.

6. Ceylonese rubber is high cost and unless a price of $22\frac{1}{2}$ cents per pound or better (compared with a current price of $19\text{-}5\frac{7}{8}$ cents on the New York market) is received, much rubber acreage is likely to be diverted to other crops. Ceylon has approached the United States regarding the purchase of 1948-49 rubber production and also on a long-term contract. No decision has been made on this matter, and the possibility exists that Ceylon may be using the Soviet inquiry as a lever to obtain more favorable terms from the United States.

7. In view of these developments and other events as reported in IM-73, it now appears that the USSR may obtain adequate supplies of natural rubber both for current consumption and stockpiling.

THEODORE BABBITT
Assistant Director
Reports and Estimates

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